NATURAL RESOURCES JOURNAL

Volume 13
Issue 2 *Spring 1973*

Spring 1973

Economic Independence and Zambian Copper, by Mark Bostock and Charles Harvey, Editors

John F. Due

Recommended Citation

John F. Due, *Economic Independence and Zambian Copper, by Mark Bostock and Charles Harvey, Editors*, 13 Nat. Resources J. 395 (1973).
Available at: https://digitalrepository.unm.edu/nrj/vol13/iss2/15

This Book Review is brought to you for free and open access by the Law Journals at UNM Digital Repository. It has been accepted for inclusion in Natural Resources Journal by an authorized editor of UNM Digital Repository. For more information, please contact amywinter@unm.edu, lsloane@salud.unm.edu, sarahrk@unm.edu.

Economic Independence and Zambian Copper

By
MARK BOSTOCK AND CHARLES HARVEY, EDITORS
NEW YORK
PRAEGER PRESS. 1972.
Pp. 294. $18.50

A substantial portion of the world's supply of mineral resources is found in the less developed countries (LDCs). In the past, these resources were typically developed by foreign capital in a fashion which provided little benefit to the people of the country. Today, the LDCs are determined to prevent this type of exploitation; yet they lack personnel and capital to develop the resources themselves. The basic problem they face is that of ensuring development of the resource while at the same time obtaining maximum benefit from its development. This book provides a detailed study of one such country, Zambia, and its efforts to solve the dilemma. It provides a survey and analysis of the background and various steps in the reorientation of government policy toward the mining industry.

Zambia (formerly Northern Rhodesia) is the third largest producer of copper in the world. There are few LDCs whose economies are so completely dependent on a single product. In colonial days, the copper resources were exploited by two foreign firms. Worked with white labor, the mines provided profits primarily to foreign owners. Africans gained little except through the development of infrastructure. Much of the foreign exchange that was earned benefited white-dominated Southern Rhodesia. Upon independence (1964), the government of Zambia sought, over a 7-year period, to ensure maximum benefits from the mines for the people of Zambia. The six authors involved were in Zambia throughout all or most of this period, and were intimately acquainted with the background and changing policies.

Initially, Harvey outlines the basic problems and dilemmas—the inherent conflict between the desire for economic independence and optimization of benefits from the resources, on the one hand, and the need for foreign investment and management, on the other. The government has sought to move as far as possible in the attainment of the primary objective without losing sight of the constraints imposed by the second. This is not easy in view of the inherent conflicts between the goals of the government and the private companies. Much of the conflict centers around reinvestment of earnings versus repatriation to the home country.

The Zambian solution has been a partnership between government and private enterprise. This approach has proven more attractive to

foreign enterprises than other policies mainly because it reduces the threat of expropriation and complaints of exploitation. At the same time, it gives the government an insight into problems of the industry. However, there are a wide variety of partnership relations that may be established; the net outcome in any particular case depends on relative bargaining strength. Zambia had the disadvantage of urgent need to retain technical personnel. To its advantage, however, was the size of the operations and thus, the inability of the foreign owners to shift operations and personnel elsewhere.

The book also provides a thorough historical background and analysis of changing policies. Even the colonial government quarreled with the British South Africa Co. over mineral rights; and upon independence, the company was in effect forced to sell these to the government for a relatively small sum. The mining companies themselves were not interfered with until 1969 when they were asked to sell 51 percent of the ownership to the government. A general review of the economy and government policies during the post-independence period provides a background for the mining policies. Of particular concern were the effects of Rhodesia's unilateral declaration of independence (UDI) in 1965. In an effort to extricate itself from the economy of Southern Africa after UDI, Zambia took controlling ownership of most large scale businesses and sought to reorient trade away from the South. While in many respects the policies were successful, they disrupted copper production to some extent and raised costs. The relative success of this approach was a factor in its selection for the mining companies. Zambian ownership of these companies was intended to end a high rate of expatriation of earnings, to stop the sharp curtailment of expansion of the mines, and to gain greater control of the economy. The companies agreed to the proposal, partly because of the major changes in the tax structure that were made at the same time. The old tax system, related to gross receipts without regard to costs, was a serious hindrance to the development of low grade ore. The new system, related solely to income, provides for a tax of 73% on earnings but with greatly liberalized capital allowances (all new equipment can be fully depreciated the year acquired). The new system is an obvious improvement over the old, but the system fails to distinguish between necessary and windfall profits. As a result, the high rate will continue to have some undesirable effect on new projects.

The takeover of 51% ownership will be paid for from future earnings on an established schedule. The government made a number of commitments to the companies relating to tax rates, exchange controls, and the like. It also signed management contracts with the

firms for continued operation. Day to day operation is still controlled by management.

The changeover was followed by substantial expansion, probably due more to the tax changes and the lessening of uncertainty than to the takeover. Given the circumstances, the private owners did reasonably well. The government also did well, particularly in gaining greater long run control over the economy, except for one serious error—there is no provision for reduction in the takeover payments in the event of a sharp decline in copper prices.

On the whole, the transition was a successful one. Exactly what it will mean cannot be determined for some years. It would be very helpful if the authors were to return to the scene ten years from now and write a sequel. There are two great unknowns at this moment: the price of copper and continued political stability in Zambia. The government has had an excellent reputation for integrity, reasonableness, and absence of corruption. If this continues and copper prices remain at tolerable levels, the experiment should prove to be highly successful.

The book is an excellent one, providing a thorough analysis of the issues as well as an excellent description of events and policies. It is well integrated despite its several authors. One can only object to the unreasonable price placed by Praeger on this book. It will greatly restrict its circulation. Pressed for funds, even university libraries are balking at such figures; some improved method of making scholarly studies available at reasonable prices is essential.

JOHN F. DUE*

*Professor of Economics, University of Illinois, Urbana.